

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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Slowing Inflation . . .

One of the brightest spots in the improving global economic environment is the pronounced slowing of world inflation. In the U.S., for example, consumer prices rose by only 3.2 percent year-over-year in 1983—the smallest annual increase since 1967. And although consumer prices rose at a 4.2 percent annual rate in the first quarter of this year, this pace is still well below the average annual rate of increase of the past 15 years. In many of the other major industrial countries, inflation has eased to the slowest pace since the early 1970s.

For the first time in the postwar period, the inflation rate in the industrial countries has ratcheted downward from levels prevailing in the previous economic cycle. What is more, the outlook is for more moderate price increases over the course of this recovery than in recent business cycles. This suggests that the current global expansion may be more sustainable than previous ones, with more countries eventually participating in it than now.

In the industrial countries as a group, inflation performance has improved markedly in recent months. Consumer prices rose by 0.4 percent in March of this year after a 0.5 percent increase in February and a 0.6 percent uptick in January. In the first quarter of this year, prices in the industrial countries were more than five percent higher than in the same quarter of 1983, the smallest four-quarter increase since 1972 and down considerably from the peak rates of 1980. In five of the seven major industrial countries (France, Germany, Italy, the United Kingdom and Canada), inflation in the six months ending in March 1984 ran on average at an annual rate of about one-quarter below the level of 1983 as a whole.

. . . Will Set The Stage . . .

The improvement in the last few months is a continuation of a trend which began in 1982. For example, on a calendar year basis, prices in Japan in

1983 rose only 1.8 percent above 1982—the smallest of any industrial country and the lowest rise for Japan since 1959, while in Germany, the 3.0 percent increase was that country's lowest in five years.

The United Kingdom, which in 1979 under the new Thatcher government became the first high-inflation western country to clamp down seriously on its inflation, registered the best progress against the rise in consumer prices—only 4.6 percent in 1983 after an 8.6 percent rise in 1982 and an 18 percent increase in 1980. Inflation slowed even further in the six months ending last March to a 3¼ percent annual rate. Canada has also reduced its inflation rate over the 12 months ending this past March to 4.7 percent compared with 5.9 percent, year-over-year, for 1983. Even France, which was late joining the battle against inflation, has cut its annualized inflation rate to about eight percent in the first quarter compared with 9.6 percent for the year 1983. Among the 21 principal industrial countries, only Iceland and Sweden had higher inflation in 1983 than in the year before, but these countries, too, have begun to slow the pace of consumer price increases.

Besides the industrial countries, several developing countries, particularly in Asia, have been able to dampen price pressures. In South Korea, for example, the inflation rate dropped from the 1980 peak of 28.7 percent to 2.0 percent in the 12 months ending last February, the lowest 12-month performance in all but one of the past 25 calendar years. Singapore and Thailand have also shown sharp improvement in their inflation performance. However, a rising rate of inflation in Latin America—to an average of 131 percent in 1983 from 80 percent in 1982—is another exception to the trend.

One of the important reasons for the general downward ratcheting of inflation in this business cycle has been the moderation in wage increases. The prolonged 1981-82 recession which was preceded by



an extended slowdown in growth beginning in 1980, left 30 million workers unemployed in the major industrial countries, taming labor's excessive wage demands. As a result, the average increase in hourly earnings in manufacturing slowed to six percent in 1983 from 8.3 percent in 1982 and an average of 11.3 percent during 1972-81. Reflecting this and the labor productivity gains usually observed during the initial stages of a recovery, unit labor costs in the seven largest industrial economies rose only 1.5 percent in 1983—lower than at any time during the 1970s. In spite of the much improved growth prospects in the developed world this year, persistent high unemployment will

continue to moderate wage demands.

Further, the prolonged slowdown also strongly eroded the prices of oil and primary commodities. Despite the world economic recovery, these prices are still 17.6 percent and 14 percent respectively below their peak levels in the early 1980s.

Food prices have also contributed to the slowing of inflation. Despite weather-related problems in many parts of the world, food prices at the retail level rose more slowly in the industrial countries last year, than at any time since 1973. In 1983, for example, food prices rose on average only about two percent

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/23/84	Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	157.036	- 4.086	+ 7.728
Loans to Depository Inst.	3.746	- .867	+ 2.795
Float	.454	+ .429	- 1.172
Total Reserve Bank Credit	169.177	- 5.712	+ 9.461
Treasury Deposits with			
Federal Reserve Banks	4.020	+ .499	+ 1.054
Currency in Circulation	171.776	- .342	+13.243
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.650	- .728	+ 3.983
Member Bank Reserves:	5/23/84		
Total Reserves Held	35.760	- .096	+ 1.654
Excess (Deficiency)	.557	- .028	+ .107
Net Borrowed Reserves	2.969	+ 2.669	+ 3.083
		% Change Since	
		Three Months Ago*	Year Ago
Monetary Aggregates †			
M1 (5/14/84)	541.0	+ 4.0	+ 7.0
M2 (April '84)	2,242.3	+ 6.5	+ 7.7
M3 (April '84)	2,791.7	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 5/25/84			
‡ U.S. Treasury Bills	10.00%	11.21%	11.96%
* Federal Agencies	10.77	11.37	11.96
* Project Notes—Taxfree (46% Taxable Equivalent)	10.37	10.74	12.04
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.69	12.38	13.31
‡ Finance Company Paper—Prime			
5- 14 days	9.50%	Jun.	10.50%
15- 29 days	10.00	Jul.	10.65
30- 59 days	10.30	Aug.	10.95
60- 89 days	10.40	Sep.	11.15
90-179 days	10.40	Oct.	11.20
180-239 days	10.00	Nov.	11.30
240-270 days	10.00		
‡ Industrial Paper—Prime			
30- 89 days	10.35%	† Federal Funds	
90-120 days	10.60	Effective Rate	10.05%
‡ Discount basis.	* Subject to availability.	† Estimated.	

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84 \$ 3,542	\$ 3,436	\$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84 \$ 1,606	\$ 1,573	\$ 1,490
Percent Change, Annual Rate	1st Q'84 8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84n 6.0%	2.4%	8.4%
Change in Producer Prices*	Apr '84 0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons) †	Apr '84 104,402	104,140	99,606
Unemployment as % of Civilian Labor Force †	Apr '84 7.8%	7.8%	10.2%
Personal Income*	Apr '84 \$ 2,957	\$ 2,942	\$ 2,689
Leading Indicators Composite Index (1967=100) †	Mar '84 165.5	167.3	150.2
Industrial Production Index (1967=100) †	Apr '84 163.1	160.9	142.6
Net Change in Consumer Installment Credit †	Mar '84 \$ 5.87	\$ 6.61	\$ 2.94r
U.S. Merchandise Trade Balance †	Mar '84 -\$ 10.26	-\$ 10.09	-\$ 3.70
Plant and Equipment Expenditures*	2nd Q'84 \$335.40(a)	\$332.66(a)	\$293.46
Private Housing Starts (Thousands of Units)*	Apr '84 1,963	1,645	1,549
New Construction Expenditures*	Mar '84 \$ 295.6	\$ 292.0	\$ 241.9
Total Business Inventories †	Mar '84 \$ 531.8	\$ 527.6	\$ 499.4
Total Business Sales †	Mar '84 \$ 400.7	\$ 398.8	\$ 348.2

*Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

in the U.S., Canada, Japan and Germany.

... For Stronger Economic Growth

But the basis for expecting further favorable inflation developments in the future is the recent change in the philosophy of public economic management in many industrial countries. Until the late 1970s, the dominant tenet was to promote growth and full employment through active government intervention in the economy, using either fiscal or monetary means. However, by the 1970s, it was apparent that this produced higher rates of monetary growth and inflation but less real growth. Indeed, world economic growth slowed from an

annual average of 5.1 percent in the 1960s to 3.8 percent by the 1970s, while inflation climbed from 4.1 percent to 10.1 percent as the global money supply grew from 7.7 percent to 12.8 percent. This was the "stagflation" problem of the 1970s.

Consequently, recent national economic policies in most industrial countries have attempted to stabilize prices, with special emphasis on anti-inflationary monetary restraint. The intent is to foster sustained long-term growth by making the private sector more confident of the future and therefore more willing to save and invest.

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Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of \$100,000 or more			
Weekly Reporting Banks			
Nationwide (5/9/84)	144,700	+ 2,346	- 3,189
New York City (5/16/84)	30,437	+ 698	- 3,034
Commercial Paper (5/16/84)	212,332	+ 3,854	+42,188

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
	Latest Week	Change Since	
		Week Ago	Year Ago
Weekly Reporting			
Large Commercial Banks			
Nationwide (5/9/84)	239,101	+ 2,430	NA*
New York City (5/16/84)	63,578	+ 601	NA*
Total Loans and Leases Gross Adjusted			
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/9/84)	601,866	- 808	NA*
New York City (5/16/84)	136,690	+ 1,469	NA*

* Year ago data not available due to definitional changes.

Financial Markets

	Friday 5/25/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	10.00%	- .06	+ 1.14
180-Day Billst	11.20	+ .15	+ 2.07
Longest Billst	11.95	+ .20	+ 2.61
Recent Issues:			
12 ⁵ / ₈ s 5/31/86 (When Issued)	12.75	NA	
12s 3/31/88	13.25	+ .15	
13 ¹ / ₈ s 5/15/94	13.75	+ .16	
13 ¹ / ₄ s 5/15/14	13.75	+ .13	
Municipals:			
Bond Buyer-20 Bond Index* (5/24/84)	10.83%	+ .47	+ 1.32
Blue List Total (\$ Million)	\$1,580	+\$ 14	+ \$ 82
30-Day Visible Supply (\$ Million)	\$2,696	-\$ 48	- \$648
Total	\$4,276	-\$ 34	- \$566
Corporates:			
Moody's Aa Composite (5/24/84)	14.31%	+ .08	+ 2.12
30-Day Visible Supply (\$ Million)	\$ 510	-\$1,405	- \$250
Stocks:			
Dow-Jones Averages:			
Industrials	1,107.10	- 26.69	- 109.04
Transportation	462.76	- 11.83	- 82.34
Utilities	123.55	- 3.76	- 6.57
65 Stocks	430.28	- 10.93	- 47.75
Standard and Poor's 500 Stocks	151.62	- 4.16	- 12.84
N.Y.S.E. Composite Index	87.12	- 2.44	- 8.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,328	+ 1,424	- 13,134

International Rates

	Friday 5/25/84	Week Ago
EURODOLLAR		
DEPOSIT RATES (bid)		
Overnight	10.13%	9.25%
1 month	10.75	10.88
3 month	11.63	11.75
6 month	12.31	12.31
1 year	13.25	12.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.00%	12.90%
Long Term (7 to 15 yrs.)	13.25	13.15
FOREIGN EXCHANGE SPOT RATES		
New York Opening	U.S. \$	Currency
(5/25/84)	Equivalent	Per U.S. \$
Belgium	.01802	55.50
Canada	.7721	1.2952
Denmark	.1001	9.9900
France	.1192	8.3900
Germany	.3671	2.7240
Italy	.0005926	1687.50
Japan	.004326	231.15
Mexico	.004938	202.50
Netherlands	.3253	3.0738
Switzerland	.4447	2.2488
U.K.	1.3850	.7220

* 46% Taxable equivalent 20.06%.

† Bond equivalent.



Great golf! Great cause! Great price!

The Manufacturers Hanover Westchester Classic is at the Westchester Country Club in Harrison, New York. June 4th-10th.

- Tickets for the Sports House and grounds for 7 days - \$60.
- Grounds only - \$45. Monday and Tuesday (qualifying and practice rounds) - \$5 or \$3 per day. Wednesday (the Pro-Am) - \$10 or \$6.
- Thursday, Friday, Saturday, Sunday -- \$18 or \$15 each day.
- Seve Ballesteros, defending champion, and other top pros from the PGA Tour, will compete for \$500,000 in prize money, and the winner's purse of \$90,000.
- Proceeds help support these area hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mt. Vernon, White Plains, Yonkers General.
- Tickets on sale at all these hospitals through June 3rd, then at the gate. To charge with MasterCard or VISA call (212) 808-8100.
- For more information call (914) 967-5356.



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